

# Emerging Domestic Opportunities Fund

Quarter Ending December 31, 2018

## OVERVIEW:

The GMO Emerging Domestic Opportunities Fund's investment objective is total return. The Fund uses fundamental analysis in a structured approach to select countries, sectors, and stocks that we believe are the most likely to benefit from the rising demand for goods and services in emerging markets.

## Performance (%)

Net of Fees, Class II, Fair Value, USD	-5.44
Gross of Fees, Class II, Local Close, USD	-5.29
MSCI Emerging Markets <sup>1</sup>	-7.47

## Major Performance Drivers

Emerging markets began the quarter under pressure from a global risk-off wave sparked by fears of rising rates in the US, increasing trade tensions and slowing global growth. November brought welcome relief with emerging markets posting their best month since January on hopes of a resolution to the trade dispute between the US and China. The Fed also boosted sentiment by signaling that it was near the end of its rate hikes. The relief was short-lived as December saw investors switching back to worrying over a slowing global economy and trade tensions. Country returns over the quarter varied, ranging from a 13.4% jump in Brazil to a 22.4% fall in Pakistan. Domestic demand driven sector returns were more clustered, varying from a 3.6% rise in Utilities to a drop of 16.2% in Health Care.

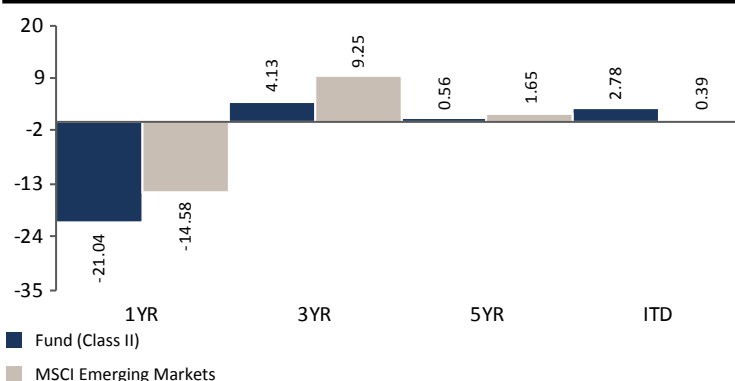
The Brazilian market celebrated the election of Bolsonaro as president. There are hopes that he will address the pension burden and enact pro-market reforms. Our investments in Brazilian Financials and Industrials contributed to performance.

Stocks in China began the quarter impacted by the ratcheting of trade tensions with the US. A slowing domestic economy added further pressure. The middle of the quarter saw some relief as hopes grew of a quick resolution to trade tensions with the US. The end of the quarter saw renewed pressure from multiple reports indicating a slowing economy. Industrial output and retail sales grew at the worst pace in years and there were still no signs of a major government stimulus. Our exposure to Chinese Consumer Discretionary and Financials hurt performance.

Sentiment improved in India with a drop in the price of crude oil, a big driver of the country's current account deficit. India also gained from its relatively greater insulation from global trade. Our holdings in Indian Financials and Industrials positively impacted performance.

Performance data quoted represents past performance and is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investors shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the performance data provided herein. To obtain performance information to the most recent month-end, visit [www.gmo.com](http://www.gmo.com). Gross Expense Ratio of 1.18% is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2018.

## Annualized Return (%) as of December 31, 2018



Inception date: 03/24/2011

Chart returns include purchase premiums and redemption fees impact if applicable.

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The Mexican stock market was hit by fears that the incoming administration would impose more regulations on sectors such as Financials and be generally less business-friendly. Also depressing investors was the fall in the price of crude oil, a key export. Our exposure to Mexico Financials detracted from performance.

Turkish assets gained from a decline in pressure on the Turkish lira. The currency rose following dovish comments from the Fed on its path of future rate hikes. The end of the quarter saw assets give back some ground as investors feared that the central bank was succumbing to political pressure to prematurely ease monetary policy. Our positions in Turkish Financials helped performance.

**An investor should consider the fund's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the fund's prospectus. To obtain a prospectus please visit [www.gmo.com](http://www.gmo.com). Read the prospectus carefully before investing.**

Risks associated with investing in the Fund may include Market Risk - Equities, Management and Operational Risk, Non-U.S. Investment Risk, Liquidity Risk, and Derivatives Risk. For a more complete discussion of these risks and others, please consult the Fund's prospectus. Distributor: Funds Distributor LLC. GMO and Funds Distributor LLC are not affiliated.

<sup>1</sup> The MSCI Emerging Markets Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global emerging markets large and mid capitalization stocks. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder.